



*Joint Legislative Audit Committee*  
*Office of the Auditor General*

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**FINANCIAL AUDIT REPORT  
BOARD OF EQUALIZATION  
YEAR ENDED JUNE 30, 1978**

**REPORT TO THE  
CALIFORNIA LEGISLATURE**

**REPORT F-445**

REPORT OF THE  
OFFICE OF THE AUDITOR GENERAL  
TO THE  
JOINT LEGISLATIVE AUDIT COMMITTEE

445

FINANCIAL AUDIT REPORT  
STATE BOARD OF EQUALIZATION  
YEAR ENDED JUNE 30, 1978

JANUARY 1980



# California Legislature

## Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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### Office of the Auditor General

January 24, 1980

445

The Honorable Speaker of the Assembly  
The Honorable President pro Tempore of the Senate  
The Honorable Members of the Senate and the  
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's financial audit report of the State Board of Equalization, year ended June 30, 1978.

The auditors are Richard I. LaRock, Audit Manager; Robert L. Hamric, CPA; Del Pelagio, CPA; William L. Woodward, CPA; Donald H. McGilvray, CPA; Cecil W. Carthen; Enrique Farias; Jeffrey Mansur; and Robyn Graves.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "S. Floyd Mori".

S. FLOYD MORI  
Assemblyman, 15th District  
Chairman, Joint Legislative  
Audit Committee

Attachment

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## INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the State Board of Equalization. This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

The principal objectives of the State Board of Equalization are to collect revenue and to provide property tax equalization for the State of California. The board is California's major revenue agency. The activities of the State Board of Equalization are financed by General Fund budget appropriation and through reimbursements.

## AUDITOR'S OPINION

We have examined the combined balance sheet of the State Board of Equalization as of June 30, 1978 and the related statements of revenues, expenditures, and changes in fund equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the State Board of Equalization at June 30, 1978 and results of operations and changes in fund equity for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except that the State Litter Control Recycling, and Resource Recovery Fund and the State Emergency Telephone Number Account were established during the audit period.

The accompanying supplemental information and the column amounts on the accompanying combined balance sheet captioned "Total Memorandum Only" for June 30, 1978 are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data. The supplemental information has been subjected to the tests and other auditing procedures applied in the examination of the financial statements listed in the foregoing Table of Contents and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The column amounts on the accompanying combined balance sheet and statements of revenues, expenditures, and changes in fund equity for the year ended June 30, 1977, which are presented for comparative purposes only, were not audited by us and accordingly we do not express an opinion on them.

  
WESLEY E. WOSS  
Assistant Auditor General

Date: May 1, 1979

Staff: Richard I. LaRock, CPA  
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Robyn Graves

STATE BOARD OF EQUALIZATION  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1978  
(With Unaudited Amounts for 1977)

ASSETS	Governmental Fund Types		Fiduciary Fund Type	Account Group General Fixed Assets	Totals (Memorandum Only)	
	General	Special Revenue	Trust		June 30, 1978	June 30, 1977
Cash	\$ 117,398	\$246,265,379	\$ 9,341,471	\$ --	\$255,724,248	\$345,980,607
Revolving cash fund (Note 3)	(148,496)	--	--	--	(148,496)	(149,644)
Deposits in Surplus Money Investment Fund (Note 4)	--	4,449,700	2,570,500	--	7,020,200	1,502
Security deposits held in trust	--	--	63,330,312	--	63,330,312	53,215,698
Accounts receivable	1,126,563	162,275,527	--	--	163,402,090	125,287,482
Allowance for deferred and uncollectible receivable (Note 5)	(397)	(115,009,773)	--	--	(115,010,170)	(75,352,606)
Due from other funds (Note 6)	--	21,680,439	339,040	--	22,019,479	15,828,162
Prepayments to other funds	225,797	--	--	--	225,797	237,250
Expense advances to employees	130,024	--	--	--	130,024	85,779
Deferred charges	9,319	--	--	--	9,319	2,390
Land	--	--	--	64,505	64,505	--
Buildings and improvements	--	--	--	170,562	170,562	--
Equipment	--	--	--	1,704,530	1,704,530	1,563,307
Advance to Architect Revolving Fund	--	--	--	200,350	200,350	168,000
<b>Total Assets</b>	<b>\$1,460,208</b>	<b>\$319,661,272</b>	<b>\$75,581,323</b>	<b>\$2,139,947</b>	<b>\$398,842,750</b>	<b>\$466,867,927</b>
<b>LIABILITIES, ENCUMBRANCES OUTSTANDING, AND FUND EQUITY</b>						
Liabilities:						
Accounts payable	\$2,563,356	\$ 1,023,567	\$ --	\$ --	\$ 3,586,923	\$ 3,078,215
Refunds payable	--	344,127	61,122	--	405,249	140,661
Due to the General Fund	--	149,622,898	467,929	--	150,090,827	231,769,217
Due to local governments (Note 7)	--	160,897,786	--	--	160,897,786	167,494,857
Due to other funds (Note 8)	622	4,971,591	--	--	4,972,213	--
Overpayments	--	290,182	--	--	290,182	250,527
Uncleared collections	13,996	--	--	--	13,996	4,300
<b>Total Liabilities</b>	<b>2,577,974</b>	<b>317,150,151</b>	<b>529,051</b>	<b>--</b>	<b>320,257,176</b>	<b>402,737,777</b>
Encumbrances Outstanding	306,956	--	--	--	306,956	--
Fund Equity:						
Investment in general fixed assets	--	--	--	1,939,597	1,939,597	1,563,307
Designated for construction	--	--	--	200,350	200,350	168,000
Designated for special purposes	--	21,664	75,052,272	--	75,073,936	61,599,691
Operating clearing (Note 9)	(1,424,722)	2,489,457	--	--	1,064,735	799,152
<b>Total Fund Equity</b>	<b>(1,424,722)</b>	<b>2,511,121</b>	<b>75,052,272</b>	<b>2,139,947</b>	<b>78,278,618</b>	<b>64,130,150</b>
<b>Total Liabilities Encumbrances Outstanding and Fund Equity</b>	<b>\$1,460,208</b>	<b>\$319,661,272</b>	<b>\$75,581,323</b>	<b>\$2,139,947</b>	<b>\$398,842,750</b>	<b>\$466,867,927</b>

The notes to the financial statements are an integral part of this statement.

STATE BOARD OF EQUALIZATION  
COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND EQUITY  
GOVERNMENTAL FUND TYPES AND FIDUCIARY FUND TYPES

FOR THE FISCAL ENDED JUNE 30, 1978  
(With Unaudited Amounts for 1977)

	Governmental Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenue		June 30, 1978	June 30, 1977
Revenues	\$ 8,822,576	\$5,530,195,938	\$29,311,631	\$5,568,330,145	\$4,813,482,631
Other Sources:					
Revenues collected for local government	--	1,392,097,810	--	1,392,097,810	1,182,067,095
Support appropriations	46,499,733	2,819,412	--	49,319,145	45,757,006
Reimbursements	12,370,562	--	--	12,370,562	11,321,357
Nonrevenue receipts	--	12,232,493	--	12,232,493	10,298,711
Transfers from other funds	--	--	78,522	78,522	--
Refunds to reverted appropriations	664	--	--	664	5,840
Prior year revenue adjustments	--	15,898,756	--	15,898,756	(914,743)
Securities received as guaranty deposits	--	--	24,749,471	24,749,471	21,290,710
Receipts for depositors	--	--	6,177,487	6,177,487	5,473,942
Total Revenues and Other Sources	67,693,535	6,953,244,409	60,317,111	7,081,255,055	6,088,782,549
Expenditures:					
Personal services	51,151,360	--	--	51,151,360	45,966,072
General expenses	4,381,926	--	--	4,381,926	3,804,997
Printing	661,788	--	--	661,788	580,793
Communications	1,413,620	--	--	1,413,620	1,283,857
Travel in-state	1,756,063	--	--	1,756,063	1,681,211
Travel out-of-state	500,078	--	--	500,078	479,085
Data processing	850,640	--	--	850,640	668,923
Facilities operations	2,543,435	--	--	2,543,435	2,317,438
Pro rata administrative charges	67,856	--	--	67,856	50,158
Equipment	136,119	--	--	136,119	392,347
Capital outlay	--	--	--	--	235,152
Expenditures reimbursed to the General Fund (Note 10)	(4,099,226)	3,226,815	872,411	--	--
Other Uses:					
Transfers of accountability to the State Controller	8,815,063	5,452,115,117	--	5,460,930,180	4,704,113,684
Transfers to the General Fund	--	17,660,401	--	17,660,401	--
Transfers to other funds	--	--	78,522	78,522	32,984,186
Transfers to counties	--	--	25,584,979	25,584,979	--
Distribution of local sales tax collections to local governments	--	1,392,097,810	--	1,392,097,810	1,182,067,095
Allocation of cigarette tax to cities and counties	--	87,456,360	--	87,456,360	86,231,415
Payments to or for depositors	--	--	5,225,833	5,225,833	4,990,348
Securities released as guaranty deposits	--	--	14,634,856	14,634,856	12,464,027
Prior year expenditure adjustments	(128,078)	43,550	467,929	383,401	(717,930)
Total Expenditures and Other Uses	68,050,644	6,952,600,053	46,864,530	7,067,515,227	6,079,593,358
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(357,109)	644,356	13,452,581	13,739,928	9,189,191
Fund Equity - July 1	(1,067,613)	1,866,765	61,599,691	62,398,843	53,209,652
Fund Equity - June 30	<u>\$(1,424,722)</u>	<u>\$ 2,511,121</u>	<u>\$75,052,272</u>	<u>\$ 76,138,671</u>	<u>\$ 62,398,843</u>

The notes to the financial statements are an integral part of this statement.



## STATE BOARD OF EQUALIZATION

COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND EQUITY - BUDGET AND ACTUAL  
GENERAL, SPECIAL REVENUE, AND FIDUCIARY FUND TYPES

FOR THE FISCAL YEAR ENDED JUNE 30, 1978

	General Fund			Special Revenue Funds*		
	Budget as Adjusted	Actual	Variance- Favorable (Unfavorable)	Budget as Adjusted	Actual	Variance- Favorable (Unfavorable)
Revenues (Note 2)	\$ --	\$ 8,822,576	\$ 8,822,576	\$68,000,000	\$66,128,370	\$(1,871,630)
Other Sources:						
Support appropriations	48,906,473	46,499,733	(2,406,740)	2,549,314	2,549,314	--
Reimbursements	13,270,091	12,370,562	(899,529)	--	--	--
Refunds to reverted appropriations	--	664	664	--	--	--
Prior year revenue adjustments	--	--	--	--	52,174	52,174
Total Revenues and Other Sources	<u>62,176,564</u>	<u>67,693,535</u>	<u>5,516,971</u>	<u>70,549,314</u>	<u>68,729,858</u>	<u>(1,819,456)</u>
Expenditures: (Note 2)						
Personal services	52,115,423	51,151,360	964,063	--	--	--
General expenses	4,410,872	4,381,926	28,946	--	--	--
Printing	698,134	661,788	36,346	--	--	--
Communications	1,356,675	1,413,620	(56,945)	--	--	--
Travel in-state	1,753,610	1,756,063	(2,453)	--	--	--
Travel out-of-state	550,386	500,078	50,308	--	--	--
Data processing	846,568	850,640	(4,072)	--	--	--
Facilities operations	2,492,291	2,543,435	(51,144)	--	--	--
Pro rata administrative charges	71,002	67,856	3,146	--	--	--
Equipment	430,917	136,119	294,798	--	--	--
Expenditures reimbursed to the General Fund (Note 10):						
With legally adopted budget	(2,549,314)	(3,739,653)	1,190,339	2,549,314	2,549,314	--
Without legally adopted budget	--	(359,573)	359,573	--	--	--
Other Uses:						
Transfers of accountability to the State Controller's Office	--	8,815,063	(8,815,063)	68,000,000	65,531,782	2,468,218
Transfers to the General Fund	--	--	--	--	--	--
Transfers to local governments	--	--	--	--	--	--
Transfers to other funds	--	--	--	--	--	--
Payments to or for depositors	--	--	--	--	--	--
Prior year expenditure adjustments	--	(128,078)	128,078	--	--	--
Total Expenditures and Other Uses	<u>\$62,176,564</u>	<u>68,050,644</u>	<u>\$(5,874,080)</u>	<u>\$70,549,314</u>	<u>68,081,096</u>	<u>\$ 2,468,218</u>
Revenues and Other Sources over (under) Expenditures and Other Uses		(357,109)			648,762	
Fund Equity - July 1		<u>(1,067,613)</u>			<u>1,823,215</u>	
Fund Equity - June 30		<u>\$(1,424,722)</u>			<u>\$ 2,471,977</u>	

\*Only funds with legally adopted budgets are included in this statement.  
The following funds do not have legally adopted budgets and are therefore  
excluded: Alcohol Beverage Control, Cigarette Tax, Retail Sales Tax, Energy  
Resource Surcharge Tax, and Timber Tax Reserve.

The notes to the financial statements are an integral part of this statement.

CONTINUED -

State Emergency Telephone Number Account			State Litter Control, Recycling, and Resources Recovery Fund			Fiduciary Fund Type* Timber Tax Fund		
Budget as Adjusted	Actual	Variance- Favorable (Unfavorable)	Budget as Adjusted	Actual	Variance- Favorable (Unfavorable)	Budget as Adjusted	Actual	Variance- Favorable (Unfavorable)
\$ --	\$8,747,207	\$8,747,207	\$ --	\$187,317	\$187,317	\$25,915,000	\$27,100,447	\$ 1,185,447
--	--	--	270,098	270,098	--	957,411	872,411	(85,000)
--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--
--	8,747,207	8,747,207	270,098	457,415	187,317	26,872,411	27,972,858	1,100,447
--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--
--	47,830	(47,830)	--	270,098	(270,098)	--	872,411	(872,411)
--	--	--	--	--	--	--	--	--
--	8,698,755	(8,698,755)	--	165,653	(165,653)	--	26,457,390	(26,457,390)
--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	78,522	(78,522)
--	--	--	--	--	--	--	467,929	(467,929)
\$ --	8,746,585	\$(8,746,585)	\$ --	435,751	\$(435,751)	\$ --	27,876,252	\$(27,876,252)
	622			21,664			96,606	
	--			--			1,763	
	\$ 622			\$ 21,664			\$ 98,369	

STATE BOARD OF EQUALIZATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and results of operations of the State Board of Equalization. The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local governments as prescribed by the American Institute of Certified Public Accountants and by the National Council on Governmental Accounting. The accompanying financial statements are structured into Governmental Fund Types, Fiduciary Fund Types, and Account Groups.

The State Board of Equalization accounts entirely for the Cigarette Tax Fund, the Energy Resources Surcharge Fund, the Timber Tax Fund, the Timber Tax Reserve Fund, the Trust Fund, and the General Fixed Asset Group of Accounts. The board accounts for only its portion of these funds: the General Fund; the State Emergency Telephone Number Account in the General Fund; the Motor Vehicle Fuel Account in the Transportation Tax Fund; the Alcohol Beverage Control Fund; the State Litter Control, Recycling, and Resource Recovery Fund; and the Retail Sales Tax Fund. The State Controller maintains the central accounts for these funds and annually publishes fund statements.

GOVERNMENTAL FUND TYPES

Governmental Fund Types are those through which most governmental functions are typically financed. The acquisition, use, and balances of the government's expendable financial resources and the related current liabilities--except those accounted for in Proprietary Funds--are accounted for through governmental funds. The General Fund and Special Revenue Funds are the Governmental Fund Types in the State Board of Equalization. All of the governmental fund types are maintained on the modified accrual basis of accounting.

General Fund

This fund includes all financial resources not accounted for in another fund.

## Special Revenue Funds

These funds are used to account for specific revenues and operating expenditures earmarked for particular activities. These are included in the Special Revenue Funds:

State Emergency Telephone Number Account in the General Fund - This is a depository for the emergency telephone users' tax, a surcharge at the rate of one half of one percent on intrastate telephone communication services.

Motor Vehicle Fuel Account in the Transportation Tax Fund - This fund holds collections of the use fuel tax which is imposed on diesel fuel, liquified petroleum gas, and liquified natural gas used in internal combustion engines on public roads. Vendors collect the tax at the following rate:

Diesel	7¢ per gallon
Liquified petroleum gas	6¢ per gallon
Liquified natural gas	7¢ per 100 cubic feet

Alcohol Beverage Control Fund - This is a depository for the excise taxes imposed on alcoholic beverages.

Cigarette Tax Fund - This fund accounts for the cigarette tax imposed on cigarette distribution at the rate of one-half cent per cigarette (10 cents per package of 20 cigarettes).

Retail Sales Tax Fund - This fund is used as a depository for retail sales and use tax imposed on sales at the rate of six percent. In the Bay Area Rapid Transit District and Santa Clara County, the rate for this tax is six and one-half percent.

Energy Resources Surcharge Fund - This fund holds collections of the electrical energy surcharge imposed at the rate of one-tenth mill (\$.0001) per kilowatt hour.

State Litter Control, Recycling, and Resource Recovery Fund - This fund is used as a depository for the litter tax imposed on those holding seller's permits.

### Income

Throughout the fiscal year, all income including revenues, transfers, and reimbursements is accounted for on a cash basis. At June 30, the accounts are adjusted to accrue earned but uncollected income. Revenue receivables estimated to be uncollectible within one year are fully reserved.

### Expenditures

Expenditures are accounted for at the time claims for payment are filed with the State Controller. At June 30, all valid expenditure commitments against budget appropriations are accrued as expenditures, including encumbrances outstanding for which no goods or services have been received. Expenditures incurred by the General Fund on behalf of the other Governmental Type Funds are reimbursed through a plan of financial adjustment filed with the State Controller.

### Liabilities

Retirement Plan - Regular employees of the board are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the department and employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. The board's share of retirement contributions for the year was \$6,106,454.

Vacation and Sick Leave - The board does not record the costs of vacation and sick leave at the time the benefits are accumulated; however, when they are used, an account is charged.

## FIDUCIARY FUND TYPES

Fiduciary Fund Types are used to account for assets held by a governmental unit as a trustee or as an agent for individuals or private organizations. The Fiduciary Fund Types comprise the Timber Tax Fund, Timber Tax Reserve Fund, and Trust Accounts. These fund types are maintained on a modified accrual basis of accounting.

Timber Tax Fund - This fund is used as a depository for a six percent tax imposed on annually harvested timber.

Timber Tax Reserve Fund - This fund is used as a depository for a one-half percent tax imposed on annually harvested timber. This fund also holds excess funds transferred to the Timber Tax Fund.

### Trust Fund

The trust fund is used to account for security deposits the State Board of Equalization requires from taxpayers doing business in the State. These deposits are generally refundable after three years. However, other state agencies have the right to reduce any amounts owed and due to the State.

### Income

Throughout the fiscal year, all income including revenues and transfers is accounted for on a cash basis. At June 30, the accounts for the Timber Tax and Timber Tax Reserve Funds are adjusted to accrue earned but uncollected income.

### Expenditures

Expenditures for the Timber Tax Fund are first made from the General Fund support appropriation by the State Board of Equalization. These expenditures are reimbursed through a plan of financial adjustment filed with the State Controller.

The Legislature authorized expenditures of about \$14,000 for the 1977-78 fiscal year and a similar amount for the 1976-77 fiscal year. As of June 30, 1978, the Department of Forestry reported no expenditures or accruals.

Expenditures by the Timber Tax Reserve Fund consist of transfers to the Timber Tax Fund to supplement amounts guaranteed to counties. No expenditures were made this year.

#### ACCOUNT GROUPS

General Fixed Assets - The General Fixed Assets Group is used to account for fixed assets. Assets purchased are recorded as expenditures in the appropriate fund in the year of acquisition or encumbrance. Generally, all assets valued at \$150 or more with a useful life of two years or more are accounted for in the general fixed assets account group. General fixed assets increased by a net of \$375,765 during the fiscal year.

#### 2. BUDGETED REVENUES AND EXPENDITURES

The amounts shown under "Budget as Adjusted" for revenues and detailed expenditure accounts reflect the Governor's Budget after allowing for any adjustments to the Budget Act, interim statutory changes affecting appropriations, and authorized executive budget revisions issued during the year.

#### 3. REVOLVING CASH FUND

The \$148,496 overdraft in this account occurred because cash on hand of \$79,994 was not yet deposited and other claims for replenishment were not promptly filed with the State Controller. At June 30, 1978, claims for replenishment of the revolving fund totaling \$340,560 were on file with the State Controller; however, warrants for the replenishment of the revolving fund were not issued until after this date.

#### 4. DEPOSITS IN SURPLUS MONEY INVESTMENT FUND

This account includes temporary cash reserves of funds of the department which may be transferred to and from the Surplus Money Investment Fund for cash flow and pooled investment purposes. Earnings derived from investments of the Surplus Money Investment Fund are apportioned to contributing funds in proportion to the resources each fund provided during the period and are accrued on statements of the State Board of Equalization at June 30, 1978.

5. ALLOWANCE FOR DEFERRED AND  
UNCOLLECTIBLE ACCOUNTS RECEIVABLE

Generally, revenue accounts receivable estimated to be uncollectible within one year are fully reserved. Revenue accounts receivable for the State Litter Control, Recycling, and Resource Recovery Fund have been fully reserved because proposed changes in the law make recovery improbable. The changes proposed subsequent to the date of this report include a different taxpayer base.

6. DUE FROM OTHER FUNDS

This category includes the following:

a. Transportation Tax Fund - Motor Vehicle Fuel Account	\$21,571,492
b. Aeronautics Fund	73,303
c. Surplus Money Investment Fund	374,062
d. State Emergency Telephone Number Account	<u>622</u>
Total	<u>\$22,019,479</u>

7. DUE TO THE LOCAL GOVERNMENTS

The amounts due to the local governments consist of collections for cities, counties, and transit districts not yet remitted.

Liability for local sales tax and use tax	\$146,401,237
Liability for cigarette tax collected	<u>14,496,549</u>
Total	<u>\$160,897,786</u>

8. DUE TO THE OTHER FUNDS

The board accrued the amount of \$4,971,591 to be transferred from the Retail Sales Tax Fund to the Transportation Planning and Research (TP&R) Account in the State Transportation Fund. This amount represented the board's calculation of sales tax on gasoline for the period January 1, 1977 through December 1977.



The Office of the Auditor General, however, issued a special report in October 1979 on the State Board of Equalization's calculations for the transfer of funds from the Retail Sales Tax Fund to the TP&R Account. The Auditor General recommended that the board, with the concurrence of the Department of Finance, direct the State Controller to transfer \$15,132,290 from the Retail Sales Tax Fund to the TP&R Account of the State Transportation Fund for the period from July 1, 1973 through December 31, 1978. The board has discussed the recommendation with the Department of Finance. It is that department's position that it would not concur with the transfer if proposed by the Board of Equalization, and that if the issue is to be pursued further, it should be resolved by the usual budget and legislative processes. Therefore, the Board of Equalization reports that it will not pursue this particular matter further.

9. OPERATING CLEARING

The account balances at June 30 represent the clearing accounts between the governmental fund type and the State Controller.

10. EXPENDITURES REIMBURSED  
TO THE GENERAL FUND

Expenditures reimbursed to the General Fund consist of administrative costs incurred by the State Board of Equalization for various funds. The State Board of Equalization is budgeted to make all expenditures from the General Fund support appropriations. Plans of financial adjustment are filed with the State Controller to provide reimbursement to the support appropriation from applicable funds and accounts.

11. LITIGATION

The board is actively contesting many court cases involving tax refunds. One case, recently decided in favor of International Business Machines, will affect other cases which are pending. Chief Counsel estimated that probable refunds will amount to \$50 million. Since these refunds will be paid from current revenue, the financial statements for June 30, 1978 will not be affected.

12. RENTAL COMMITMENTS

These are the future minimum rental commitments for noncancelable operating leases for the year ended June 30, 1978:

1979	\$ 2,570,642
1980	2,505,614
1981	1,935,213
1982	1,810,870
1983	1,614,603
1984-1988	5,798,135
through 1993	<u>149,370</u>

Total minimum lease payments \$16,384,447

Total rental expenses for all leases of premises amounted to \$2,405,442 for fiscal year 1977-78.

### SUPPLEMENTAL INFORMATION

The schedules on pages 16 to 19 of this report combine more than one fund type or account group. These schedules are not considered necessary for a fair presentation of financial position, results of operations, and changes in financial position of the Board of Equalization. This supplemental information has been subjected to the audit procedures applied in the examination of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

## STATE BOARD OF EQUALIZATION

COMBINING BALANCE SHEET  
SPECIAL REVENUE FUNDS

JUNE 30, 1978

ASSETS	State Emergency Telephone Number Account	Transportation Tax Fund - Motor Vehicle Fuel Account	Alcohol Beverage Control Fund	Cigarette Tax Fund	Retail Sales Tax Fund	Energy Resources Surcharge Tax Fund	State Litter Control, Recycling, and Resource Recovery Fund	TOTALS		
								June 30, 1978	June 30, 1977	
Cash	\$ --	\$2,034,656	\$ 16,858	\$19,227,439	\$224,595,571	\$369,191	\$ 21,664	\$246,265,379	\$337,567,610	
Revolving cash fund	--	--	--	--	--	--	--	--	--	
Security deposits held in trust	--	--	--	--	--	--	--	--	--	
Deposits in surplus money investment	--	--	--	--	4,449,700	--	--	4,449,700	--	
Accounts receivable	--	2,068,151	754,081	19,988,656	139,458,616	--	6,023	162,275,527	124,329,827	
Allowance for deferred and uncollectible accounts receivable	--	(1,318,151)	(594,525)	(1,132,458)	(111,958,616)	--	(6,023)	(115,009,773)	(75,351,149)	
Due from other funds	622	--	--	--	21,679,817	--	--	21,680,439	15,828,161	
Total Assets	\$ 622	\$2,784,656	\$176,414	\$38,083,637	\$278,225,088	\$369,191	\$ 21,664	\$319,661,272	\$402,374,449	
LIABILITIES AND FUND EQUITY										
Liabilities:	\$ --	\$ --	\$ --	\$ --	\$ 1,023,567	\$ --	\$ --	\$ 1,023,567	\$ 852,422	
Accounts payable	--	22,497	--	39,495	282,135	--	--	344,127	140,661	
Refunds payable	--	--	--	23,547,593	125,546,558	369,191	--	149,622,898	231,769,217	
Due to the General Fund	--	--	159,556	14,496,549	146,401,237	--	--	160,897,786	167,494,857	
Due to local governments	--	--	--	--	4,971,591	--	--	4,971,591	--	
Due to other funds	--	--	--	--	--	--	--	290,182	250,527	
Overpayments	--	290,182	--	--	--	--	--	--	--	
Total Liabilities	--	312,679	159,556	38,083,637	278,225,088	369,191	--	317,150,151	400,507,684	
Fund Equity										
Fund balance:	--	--	--	--	--	--	21,664	21,664	--	
Designated for special purposes	622	2,471,977	16,858	--	--	--	--	2,489,457	1,866,765	
Operating clearing										
Total Fund Equity	622	2,471,977	16,858	--	--	--	21,664	2,511,121	1,866,765	
Total Liabilities and Fund Equity	\$ 622	\$2,784,656	\$176,414	\$38,083,637	\$278,225,088	\$369,191	\$ 21,664	\$319,661,272	\$402,374,449	

STATE BOARD OF EQUALIZATION

COMBINING BALANCE SHEET  
FIDUCIARY FUND TYPES

JUNE 30, 1978

ASSETS	Timber Tax Fund	Timber Tax Reserve Fund	Trust Fund	TOTALS	
				June 30, 1978	June 30, 1978
Cash	\$ 6,556	\$ 1,177	\$ 9,333,738	\$ 9,341,471	\$ 8,382,491
Security deposits held in trust	--	--	63,330,312	63,330,312	53,215,698
Deposits in surplus money investments	277,500	2,293,000	--	2,570,500	1,502
Due from other funds	339,040	--	--	339,040	--
Total Assets	\$623,096	\$2,294,177	\$72,664,050	\$75,581,323	\$61,599,691
LIABILITIES AND FUND EQUITY					
Liabilities					
Refunds payable	\$ 56,798	\$ 4,324	\$ --	\$ 61,122	\$ --
Due to the General Fund	467,929	--	--	467,929	--
Total Liabilities	524,727	4,324	--	529,051	--
Fund Equity - Designated for special purposes	98,369	2,289,853	72,664,050	75,052,272	61,599,691
Total Liabilities and Fund Equity	\$623,096	\$2,294,177	\$72,664,050	\$75,581,323	\$61,599,691

STATE BOARD OF EQUALIZATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND EQUITY  
SPECIAL REVENUE FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 1978  
(With Unaudited Amounts for 1977)

	State Emergency Telephone Number Account	Transportation Tax Fund - Motor Vehicle Fuel Account	Alcohol Beverage Control Fund	Cigarette Tax Fund	Retail Sales Tax Fund	Energy Resources Surcharge Tax Fund	State Litter Control, Recycling, and Resource Recovery Fund	TOTALS (Memorandum Only) June 30, 1978	June 30, 1977
Revenues									
Other Sources:									
Support appropriations	\$8,747,207	\$66,128,370	\$132,219,896	\$273,654,495	\$5,031,598,252	\$17,660,401	\$187,317	\$5,530,195,938	\$4,805,641,223
Nonrevenue receipts	--	2,549,314	--	--	--	--	270,098	2,819,412	2,438,522
Revenues collected for	--	--	--	--	12,232,493	--	--	12,232,493	10,298,711
local government	--	--	--	--	1,392,097,810	--	--	1,392,097,810	1,182,067,095
Prior year revenue		52,174	--	19,303,678	(3,457,096)	--	--	15,898,756	(914,743)
adjustments									
Total Revenues	8,747,207	68,729,858	132,219,896	292,958,173	6,432,471,459	17,660,401	457,415	6,953,244,409	5,999,530,808
Expenditures reimbursed									
to the General Fund	47,830	2,549,314	--	359,573	--	--	270,098	3,226,815	2,378,522
Other Uses:									
Transfer of account-									
ability to the State									
Controller's Office	8,698,755	65,531,782	132,203,038	205,142,240	5,040,373,649	--	165,653	5,452,115,117	4,696,276,679
Transfers to the	--	--	--	--	--	17,660,401	--	17,660,401	--
General Fund									
Distribution of local									
sales tax collections	--	--	--	--	1,392,097,810	--	--	1,392,097,810	1,182,067,095
to local government	--	--	--	--	--	--	--	--	--
Allocation of cigarette	--	--	--	87,456,360	--	--	--	87,456,360	86,231,415
tax to cities and	--	--	--	--	--	--	--	--	32,984,186
counties	--	--	--	--	--	--	--	--	--
Transfers to other funds	--	--	43,550	--	--	--	--	43,550	(518,817)
Prior year expenditure									
adjustments									
Total Expenditures	8,746,585	68,081,096	132,246,588	292,958,173	6,432,471,459	17,660,401	435,751	6,952,600,053	5,999,419,080
and Other Uses									
Excess of Revenues									
and Other Sources									
over (under)	622	648,762	(26,692)	--	--	--	21,664	644,356	111,728
Expenditures and	--	1,823,215	43,550	--	--	--	--	1,866,765	1,755,037
Other Uses									
Fund Equity - July 1									
Fund Equity - June 30	\$ 622	\$ 2,471,977	\$ 16,858	\$ --	\$ --	\$ --	\$ 21,664	\$ 2,511,121	\$ 1,866,765

# STATE BOARD OF EQUALIZATION

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY FIDUCIARY FUND TYPES

FOR THE FISCAL YEAR ENDED JUNE 30, 1978  
(With unaudited amounts for 1977)

	Timber Tax	Timber Tax Reserve	Trust Fund	TOTALS (Memorandum Only)	
				June 30, 1978	June 30, 1977
Revenues					
Other Sources:					
Transfers from other funds					
Receipts for depositors	--	78,522	--	78,522	--
Securities received as guaranty deposits	--	--	6,177,487	6,177,487	5,473,942
	--	--	24,749,471	24,749,471	21,290,710
Total Revenues and Other Sources	27,100,447	2,289,706	30,926,958	60,317,111	26,766,562
Expenditures reimbursed to the General Fund	872,411	--	--	872,411	--
Other Uses:					
Subvenced to counties	25,584,979	--	--	25,584,979	--
Transfers to other funds	78,522	--	--	78,522	--
Payments to or for depositors	--	--	5,225,833	5,225,833	4,990,848
Securities released as guaranty deposits	--	--	14,634,856	14,634,856	12,464,027
Prior year expenditure adjustments	467,929	--	--	467,929	--
Total Expenditures and Other Uses	27,003,841	--	19,860,689	46,864,530	17,454,875
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	96,606	2,289,706	11,066,269	13,452,581	9,311,687
Fund Equity - July 1	1,763	147	61,597,781	61,599,691	52,288,004
Fund Equity - June 30	\$ 98,369	\$2,289,853	\$72,664,050	\$75,052,272	\$61,599,691

### OTHER COMMENTS

As an integral part of our examination, we reviewed the board's accounting procedures and related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the board's financial statements present financial position and results of operation in accordance with generally accepted accounting principles consistently applied.

Our review enabled us to suggest improvements which would result in better operating procedures and better operating controls. A management letter describing the suggested operating improvements was issued to the board in conjunction with certain recommended adjusting entries necessary in order to achieve compliance with generally accepted accounting principles.

The board fully concurs with the suggested operating improvements and adjusting entries.



cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
Secretary of State  
State Controller  
State Treasurer  
Legislative Analyst  
Director of Finance  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
California State Department Heads  
Capitol Press Corps